The Annuity As A CD Alternative

Single premium deferred annuities have become an attractive alternative to certificates of deposit. Generally there are three reasons investors find them more desirable than CD's.

First, annuities are safer than CD's. No one has ever lost a single dollar in an annuity. CD's are insured generally to a $100,000 maximum. Annuities are totally safe and guaranteed; they are backed by the issuing company as well as individual state insurance pools where applicable.

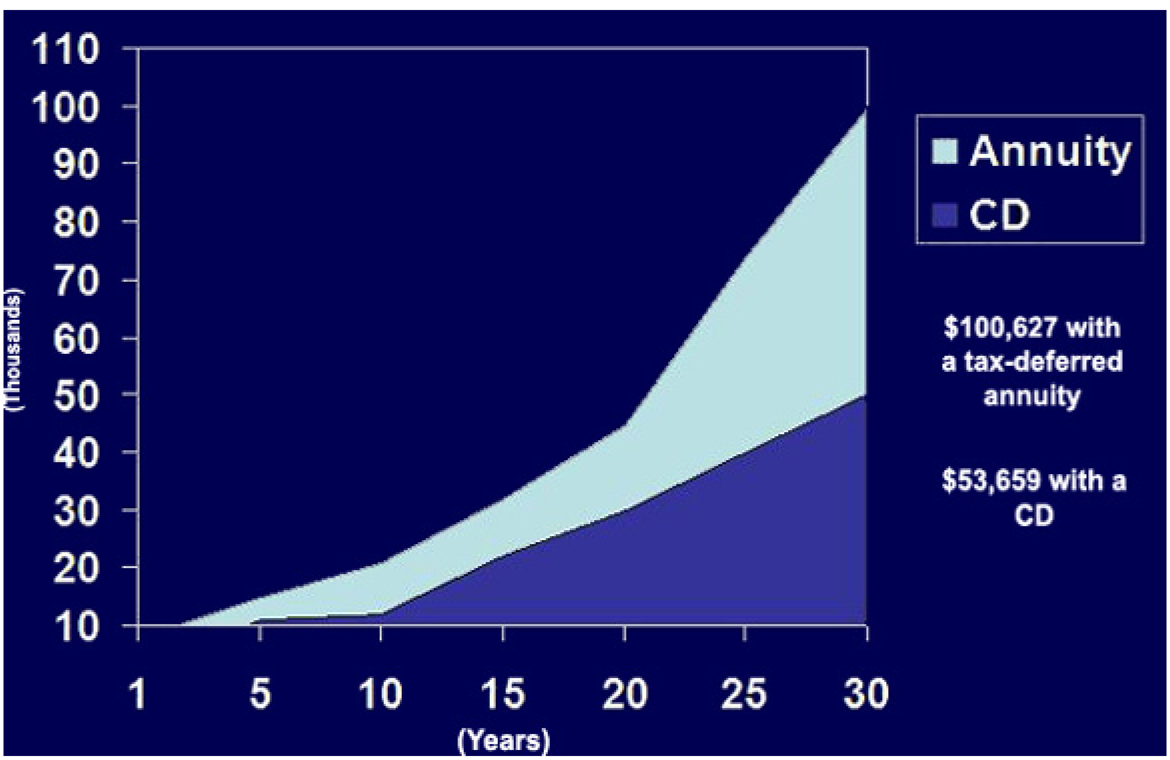
Second, annuities grow tax-deferred. CD's are taxable.

Third, annuities generally pay a higher rate of interest than CD's.

The only potential negative about annuities is the surrender charge which applies only if the annuity is surrendered or withdrawals are made in excess of that allowed under the withdrawal privilege. Some companies offer a guaranteed return of principal. This means that an annuitant is guaranteed at least a return of the principal sum of money he deposited. Some companies offer annuities that give the annuitant the option of withdrawing all principal and interest without surrender charges at the end of a specified period of time. For example, one company will issue a four year Certificate of Annuity, and at the end of the three years the annuitant can take all the principal and interest earned at that time. He may elect to not take any of it and "buy" another Certificate of Annuity. These types of annuities are somewhat restrictive during the accumulation period.

The following example compares the benefits of a tax deferred annuity with a certificate of deposit from a bank:

For comparison and illustrative purposes, let's assume a deposit/annuity payment of $10,000, interest credited on both products is 8% per year, and the individual is in the 28% tax bracket:



- After ten years, and after paying taxes on interest earnings in each of those ten years, the CD's value is $17,507. But the annuity's value has grown to $21,589. That's more than $4,000 extra in only ten years!

- After twenty years, the CD's value is $30,650. But the annuity now stands at $46,610... a difference of over $15,000!

- After thirty years, the CD's value will be $53,659. But the annuity value is now $100,627!